

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

**San Diego County Investment Pool  
California**

(Investment Pool of the County of San Diego)

Issued By  
Bart Hartman  
Treasurer/Tax Collector



-COUNTY ADMINISTRATION BUILDING  
HISTORICAL DRAWING TAKEN FROM SAN DIEGO COUNTY WEB SITE

# TABLE OF CONTENTS

## INTRODUCTORY SECTION

- 4 Letter of Transmittal from the Treasurer
- 9 GFOA Certificate of Achievement
- 10-11 Treasury Oversight Committee Members
- 12 Organization Chart

## FINANCIAL SECTION

- 14 Independent Auditors' Report
- Financial Statements:
- 15 Statement A Statement of Net Assets
- 16 Statement B Statement of Operations
- 16 Statement C Statement Changes in Net Assets
- 17 Notes to Financial Statements

## INVESTMENT SECTION

- 22 Administrative Overview
- 22 Outline of Investment Policy
- 23-24 Investment Results and Performance Returns
- 24-26 Income Allocation, Economic Environment and Risk Profile
- 27-28 List and Chart
- 28 Leverage Exposure
- 29 Asset Allocation
- 29 Schedule of Top Ten Fixed-Income Securities

## STATISTICAL SECTION

- 32 Schedule of Earnings, Returns, Fees, Apportionment Rate, Average Daily Balances and Ratio of Fees/Average Daily Balances
- 33 Schedule of Professional Fees
- 34 Schedules of Asset Allocation and Investment Pool Participants

## INTRODUCTORY SECTION



# TREASURER-TAX COLLECTOR

COUNTY ADMINISTRATION CENTER • 1600 PACIFIC HIGHWAY ROOM 112  
SAN DIEGO, CALIFORNIA 92101-2479 • (619) 531-5686, FAX 557-4093

**BART HARTMAN**  
TREASURER-TAX  
COLLECTOR

**NEIL J. ROSSI**  
CHIEF DEPUTY  
TREASURER

August 30, 2001

To the Treasury Pool Oversight Committee  
County of San Diego  
San Diego County Administration Center  
San Diego, California 92101

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the San Diego County Investment Pool (the "Pool") for the fiscal year ended June 30, 2001. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Treasurer's Office.

To the best of our knowledge and belief, the enclosed data are accurate in all material respects, and are reported in a manner designed to present fairly the financial position and results of operations of the Pool. All disclosures necessary to enable the reader to gain an understanding of the Pool's financial activities have been included.

This CAFR is presented in four major sections:

1. Introductory section, which consists of this letter of transmittal which presents certain significant events that occurred during this reporting year and the organizational structure of the Treasurer's Office.
2. The financial section, which provides the financial statements and notes to the financial statements. This section contains the opinion of the independent auditor, KPMG LLP.
3. The investment section, which provides an overview of the Treasurer's Office investment program. This section contains information relating to the investment activities of the Pool, including a summary of our investment policies, the Pool's asset allocation, and other portfolio information.
4. The statistical section is the final section of the report and consists of various tables and schedules depicting trends and miscellaneous relevant data concerning investments.

## SAN DIEGO COUNTY INVESTMENT POOL

The San Diego County Investment Pool is a local government investment pool with approximately \$2.8 billion in assets as of June 30, 2001. The Pool is headed by the San Diego County Treasurer/Tax Collector, an elected office that is responsible for tax collection, banking, investment, disbursement and accountability of public funds. The San Diego County Investment



Pool is managed by the Treasurer's Office on behalf of the pool participants. Depositors in the Pool include both Mandatory and Voluntary Participants located within the County of San Diego (see San Diego County Pool Participants Composition chart, page 28).

Mandatory Participants include the County of San Diego, K-12 school districts, and various special districts and accounts controlled by the County Board of Supervisors. Mandatory Participants are defined as those agencies required by law to deposit their funds with the County Treasurer's Office. Mandatory Participants comprise the majority of Pool's assets, approximately 98.2% as of June 30, 2001.

Voluntary Participants are those agencies that are not required to place their funds in the County Treasury, and do so only as an investment option. Voluntary Participants include cities, fire districts, and various special districts. As of June 30, 2001, Voluntary Participants accounted for approximately 1.8% of the Pool.

Community Colleges fall somewhere between Mandatory and Voluntary Participants. While they have the ability to invest funds outside of the County Treasury, they receive banking, checking, and investment services from the County. They are included in the 98.2% mandatory participants.

In addition to investment management, the Treasurer's Office also provides banking services to all non-voluntary participants. These services include, but are not limited to, warrant redemption, ACH and Fed Wire payments, acceptance of deposits, fund accounting, and account reconciliation.

## INVESTMENT ACTIVITIES

The primary objectives of the Pool, as set forth in the Treasurer's Investment Policy, in order of importance, are safety, liquidity, and yield. These have always been the goals and objectives adhered to by this office and will continue to be the main investment objectives in the future. In addition, the following goals have been set for 2001/2002: (a) leverage the County's implementation of the ERP (Enterprise Resource Planning) system to further automate the investment activities of the Treasurer's Office (b) analyze the maturity limitations of the Investment Policy to optimize the Pool's objectives and (c) obtain investment analytical software to better enhance the portfolio management of the Pool. To ensure the integrity of the Pool and provide guidelines for its operation, the Treasurer's Office prepares an Investment Policy (the "Policy") on an annual basis. Upon completion of the Policy by the Treasurer's Office, it is presented for review to the Treasurer's Oversight Committee, and then to the County Board of Supervisors for their approval at a public meeting.

The Policy strategically limits the maturity distribution of the Pool, and places limits and restrictions on the securities that may be purchased. To safeguard the investments, a custodian is employed to safekeep, settle, and accept interest payments on investments held by the Pool. To facilitate internal security and safeguards, the Policy requires an annual audit and the establishment and maintenance of internal controls and procedures.

For the 2000/2001 fiscal year, investments provided a 6.50% apportionment rate, which is the rate used in allocating the net earnings to the participants. The Pool's annualized rate of return

over the last three years was 5.45, and 4.81% over the last five years. The fair value of the securities represents 100.3% of the amortized cost of the securities. The book and fair values are used to present the data on investments. The Treasurer's Office has implemented a system of internal controls designed to ensure the reliability of reported investment information. The data presented in the Investment Section is in conformance with the presentation standards of the Association for Investment Management and Research (AIMR). Additionally, the Treasurer's Office provides monthly and quarterly investment reports to the Board of Supervisors, who then reviews this information as part of their monitoring and oversight function. Please refer to the Investment Section of this CAFR for additional information on investments.

## FINANCIAL SUMMARY

During the fiscal year ended June 30, 2001, the Pool improved in several areas. The most significant improvements were in the following areas:

1. For the first time in several years, the fair value of the portfolio is higher than cost resulting in an Unrealized Gain of \$9.5 million at June 30, 2001 compared to an Unrealized Loss of \$7.1 million at June 30, 2000.
2. The interest earnings of the Pool increased from \$112.8 million for the year ended June 30, 2000 to \$153.0 million for the year ended June 30, 2001.
3. The weighted average yield of the Pool increased from 5.68% for the year ended June 30, 2000 to 6.37% for the year ended June 30, 2001.

## SIGNIFICANT EVENTS FOR THE YEAR

During the 2000/2001 fiscal year, significant events included:

- The San Diego County Investment Pool was rated by Standard & Poors, a nationally recognized rating agency with 'AAA/S1' rating. This reflects the extremely strong protection the Pool's portfolio investments provide against losses from credit defaults. The 'S1' volatility rating signifies that the pool possesses low sensitivity to changing market conditions, given its low-risk profile and conservative investment policies. Rating considerations include:
  - Low exposure to market risk, by virtue of conservative investment policies and practices.
  - Limited use of leverage.
  - High standards for credit quality and diversification.
  - High degree of liquidity resulting from maturity profile and composition of pool participants.
  - Strong ability to forecast ongoing cash requirements.
  - Solid management oversight and operational controls.
- The rating of the San Diego County Investment Pool remained 'AAA/V1+' as given by Fitch IBCA, a nationally recognized rating agency. Both the 'AAA' and V1+ ratings are the highest ratings awarded by Fitch IBCA and reflect the highest credit quality standards for underlying

assets, diversification, management, and operational capabilities. The Pool's 'V1+' volatility rating reflects low market risk and a strong capacity to return stable principal values to participants even in severely adverse interest rate environments.

- During the year the Pool realized a significant increase in the fair value over the amortized cost of the securities from 99.7% on June 30, 2000 to 100.3% on June 30, 2001.

## CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego County Investment Pool for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2000. This was the third consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Treasurer's Office must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe this current report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB). Transactions are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

## ADDITIONS TO NET ASSETS

Contributions and investment income for fiscal year ended June 30, 2001, totaled \$31.8 billion, an increase of 13.1% over the previous year. Amounts are in thousands.

	2001	2000	<u>Increase</u> <u>Amount</u>	<u>%</u>
Contributions	\$31,637,126	\$28,018,109	\$3,619,017	12.9%
Investment Income	169,562	115,129	54,433	47.3%
Total	<b><u>\$31,806,688</u></b>	<b><u>\$28,133,238</u></b>	<b><u>\$3,673,450</u></b>	<b><u>13.1%</u></b>

## DEDUCTIONS FROM NET ASSETS

The investment pool is managed for the sole benefit of the participants. All income is distributed quarterly after deducting administrative costs. Withdrawals, distributions and expenses totaled \$31.3 billion, an increase of 13.0% over the previous year.

	2001	2000	<u>Increase</u> <u>Amount</u>	<u>%</u>
Capital Withdrawals	\$31,169,558	\$27,600,617	\$3,568,941	12.9%
Interest Distributions	149,227	110,310	38,917	35.3%
Administrative Expenses	3,744	2,455	1,289	52.5%
Total	<b>\$31,322,529</b>	<b>\$27,713,382</b>	<b>\$3,609,147</b>	<b>13.0%</b>

### PROFESSIONAL SERVICES

An opinion from the independent auditors, KPMG LLP is included in this report. Other professional service providers that are essential to the effective and efficient operation of the Pool are listed below:

Depository Bank: Bank of America  
450 B Street, Suite 100  
San Diego, CA 92101

Custodian: State Street Bank  
1001 Marina Village Parkway  
Alameda, CA 94501

Auditor: KPMG LLP  
750 B Street, Suite 1500  
San Diego, CA 92101

Legal Counsel: County Counsel of San Diego  
San Diego, CA 92101

### ACKNOWLEDGMENTS

The compilation of this report reflects the combined effort of many individuals in the Treasurer's Office. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions and determining responsible stewardship of the funds in the Treasury.

Copies of this report are available at the San Diego County Treasurer/Tax Collector, 1600 Pacific Highway, Room 152, San Diego, California, 92101. Copies will also be available on the internet at [www.sdtreastax.com](http://www.sdtreastax.com).

Respectfully submitted,

  
BART J. HARTMAN  
Treasurer/Tax Collector

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego County  
Investment Pool, California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Anne Spray Kinney*  
President

*Jeffrey L. Esser*  
Executive Director

# The Treasury Oversight Committee



**Front row, left to right:**

**Victor Calderon, Helen Robbins -Meyer, Barry Newman, Bart J. Hartman,  
Barbara Underwood, Wayne Sink**

**Back row, left to right:**

**Don Shelton, Harry Ehrlich, William J. Kelly**

**Not in picture:**

**Henry Hurley, John Linn, Andrew White**

# **The Treasury Oversight Committee**

## Members of the Oversight Committee:

**Barry I. Newman, Esquire**  
**Chairman of Oversight Committee, Public Member**

**Bart J. Hartman**  
**Treasurer Tax Collector, County of San Diego**

**Helen Robbins-Meyer**  
**Assistant Chief Administrative Officer, County of San Diego**

**Don Shelton, Ed.D.**  
**Assistant Superintendent, San Diego County Office of Education**

**Henry Hurley**  
**Chief Administrative Officer, San Diego Unified School District**

**Harry Ehrlich**  
**President, San Diego Chapter, California Special Districts Association**

**Victor M. Calderon, CPA**  
**Public Member**

**John Linn**  
**Public Member**

## Non-Member Representatives:

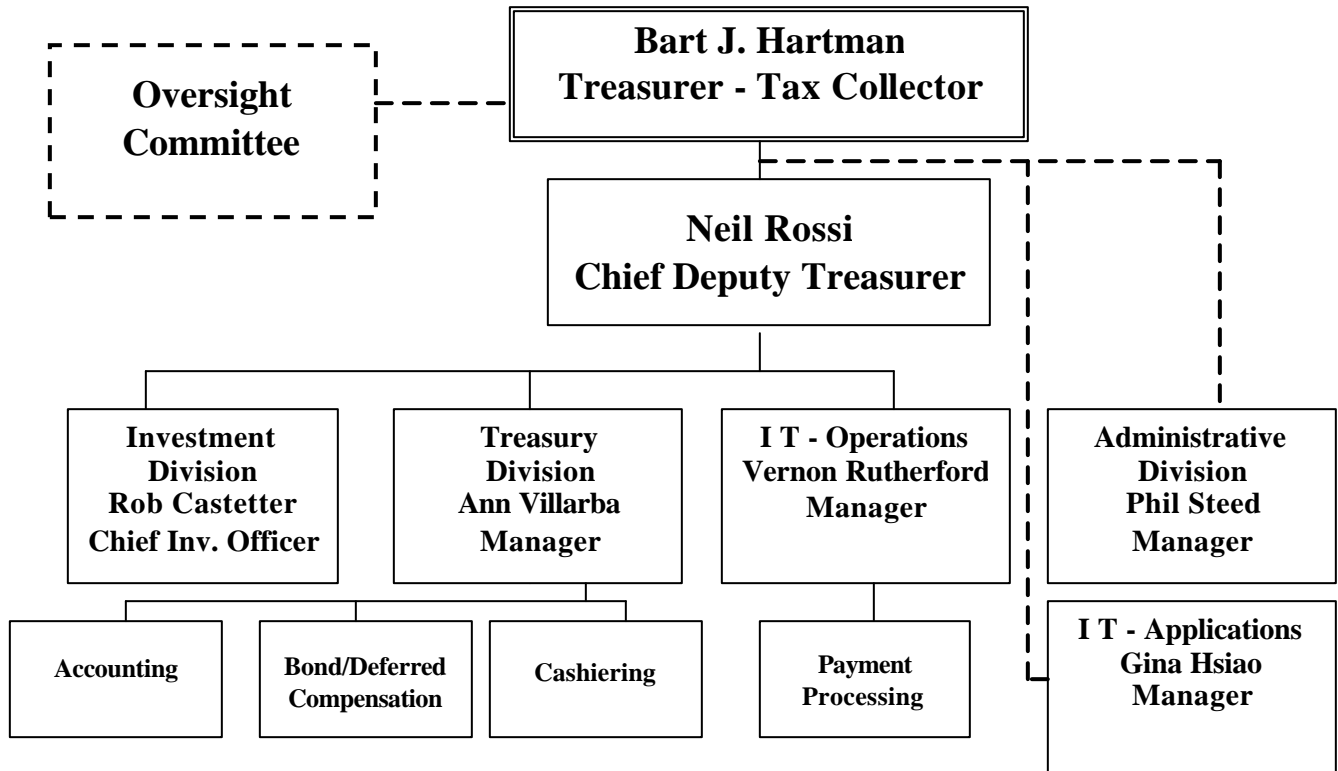
**William J. Kelly**  
**CFO & Auditor/Controller**

**Wayne Sink**  
**Director of Finance and Administration, SANDAG**

**Barbara Underwood**  
**Finance Director, City Of Vista**

**Andrew White**  
**Finance Manager, City of Poway**

## TREASURER/TAX COLLECTOR ORGANIZATION CHART



### Treasury Staff Members

Neil Rossi  
Chief Deputy Treasurer

Ann Villarba, CPA  
Treasury Manager

Gloria Arre  
Assistant Manager

Gil Enriquez  
Senior Accountant

Zenaida Deguzman  
Associate Accountant

Barbara Hoffman  
Supervising Specialist

Rob Castetter  
Chief Investment Officer

Mark Friedrich  
Investment Officer

Nancy Nuanes  
Principal Supervising Specialist

Carolyn Smith  
Administrative Secretary II

Dorothy Dogan  
Administrative Secretary II

Rosella Perez  
Senior TTC Specialist



## FINANCIAL SECTION



750 B Street  
San Diego, CA 92101

### **Independent Auditors' Report**

We have audited the accompanying financial statements of the San Diego County Investment Pool, County of San Diego, California, as of and for the year ended June 30, 2001, as listed in the accompanying table of contents. These financial statements are the responsibility of the management of the San Diego County Investment Pool. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in the notes to the financial statements, the financial statements of the San Diego County Investment Pool, the County of San Diego, California, are intended to present the financial position, results of operations and changes in net assets of only that portion of the financial reporting entity of the County of San Diego, California, that is attributable to the transactions of the San Diego County Investment Pool.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego County Investment Pool, as of June 30, 2001, and the results of its operations and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The introductory, investment and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements of the San Diego County Investment Pool. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

**KPMG LLP**

August 10, 2001



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

## STATEMENT A

**SAN DIEGO COUNTY INVESTMENT POOL**  
**STATEMENT OF NET ASSETS**

**June 30, 2001**

(With comparative totals for June 30, 2000)

<b>ASSETS</b>	<b>2001</b>	<b>2000</b>
<b>Investments at Fair Value:</b>		
<b>U.S. government obligations:</b>		
Federal Home Loan Mortgage Corp. Notes	\$ 190,955,150	\$ 247,474,087
Federal Home Loan Bank Notes	436,958,988	264,481,926
Federal National Mortgage Assoc. Notes	635,557,019	266,395,524
Federal Farm Credit Bank Notes	15,016,350	14,688,300
<b>Short-term notes:</b>		
Commercial paper	729,194,253	629,437,061
Corporate medium-term notes	88,100,908	117,900,785
Repurchase agreement collateralized by money market securities	230,000,000	330,000,000
Negotiable certificates of deposit	145,939,650	364,025,500
Money market securities	266,000,000	26,300,000
	<b>2,737,722,318</b>	<b>2,260,703,183</b>
<b>Other Assets:</b>		
Cash on hand and in banks	35,829,646	26,558,169
Receivables and other	35,226,221	32,502,491
<b>Total Assets</b>	<b>2,808,778,185</b>	<b>2,319,763,843</b>
<b>LIABILITIES</b>		
Distributions payable	39,874,100	35,499,230
Accrued expenses	1,115,616	634,767
<b>Total Liabilities</b>	<b>40,989,716</b>	<b>36,133,997</b>
<b>NET ASSETS</b>	<b>\$ 2,767,788,469</b>	<b>\$ 2,283,629,846</b>

See notes to financial statements

## STATEMENT B

**SAN DIEGO COUNTY INVESTMENT POOL**  
**STATEMENT OF OPERATIONS**  
For the year ended June 30, 2001  
(With comparative totals for the year ended June 30, 2000)

	2001	2000
<b>Investment Income:</b>		
Interest income	\$ 152,971,324	\$ 112,764,518
Net increase in fair value of investments	16,590,930	2,364,439
<b>Total investment income</b>	<b>169,562,254</b>	<b>115,128,957</b>
<b>Expenses - administrative costs</b>	<b>3,743,964</b>	<b>2,454,710</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 165,818,290</b>	<b>\$ 112,674,247</b>

## STATEMENT C

**SAN DIEGO COUNTY INVESTMENT POOL**  
**STATEMENT OF CHANGES IN NET ASSETS**  
For the year ended June 30, 2001  
(With comparative totals for the year ended June 30, 2000)

	2001	2000
<b>Net increase in net assets resulting from operations</b>	<b>\$ 165,818,290</b>	<b>\$ 112,674,247</b>
<b>Distributions to participants - distributions paid and payable</b>	<b>(149,227,360)</b>	<b>(110,309,808)</b>
<b>Net increase after distributions</b>	<b>16,590,930</b>	<b>2,364,439</b>
<b>Capital transactions:</b>		
Contributions	31,637,125,987	28,018,108,527
Withdrawals	(31,169,558,294)	(27,600,616,679)
<b>Net increase resulting from capital transactions</b>	<b>467,567,693</b>	<b>417,491,848</b>
<b>Total increase in net assets</b>	<b>484,158,623</b>	<b>419,856,287</b>
<b>Net assets, beginning of year</b>	<b>2,283,629,846</b>	<b>1,863,773,559</b>
<b>Net assets, end of year</b>	<b>\$ 2,767,788,469</b>	<b>\$ 2,283,629,846</b>

See notes to financial statements

**San Diego County Investment Pool**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2001**

**Summary of Significant Accounting Policies**

**The Financial Reporting Entity**

The San Diego County Investment Pool (the Pool) is a local government investment pool with approximately \$2.8 billion in assets as of June 30, 2001. It is headed by the Treasurer/Tax Collector, an elective office that is responsible for tax collection, banking, investment, disbursement and accountability of public funds. The San Diego County Investment Pool is managed by the County Treasurer's Office on behalf of the pool participants which include the County, school districts, community colleges and other districts and agencies. The school districts are required by State statutes to deposit their funds with the County of San Diego. "Mandatory" participants in the Pool comprise the majority of the pool's assets, approximately 98.2%. The State of California gives the Board of Supervisors the ability to delegate the investment authority to the County Treasurer's Office in accordance with Section 53607 of the California Government code. The Pool's investment objectives are to safeguard principal, meet the liquidity needs of the participants, and return an acceptable yield within the parameters of prudent risk management.

Pursuant to Sections 27130-27137 of the California Government Code, the Board of Supervisors has established an oversight committee that monitors and reviews the Pool's investment policy. The oversight committee consists of members appointed from the districts or offices that they represent, and up to five members of the public, having expertise in, or an academic background in public finance. This committee requires a financial audit to be conducted annually on a fiscal year basis which includes tests of compliance with laws and regulations. The San Diego County Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

**Basis of Accounting**

The accompanying financial statements were prepared using the accrual basis of accounting. Earnings on investments are recognized as revenue in the period in which they are earned and administrative costs are recognized as expense when incurred. Withdrawals by participants are based on cost while investments are reported at fair value.

**Deposits:** At year-end the bank balance of Pool's deposits with various financial institutions totaled \$35,812,784 consisting of \$35,322,784 in demand deposits and \$490,000 in collateralized deposits. Of these amounts, \$790,000 was covered by federal deposit insurance and \$35,022,784 was uncollateralized. However, state statutes require that depositories holding public funds on deposit maintain collateral in the form of a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit.

**Investments:** The San Diego County Investment Pool operates under the prudent person standard. State statutes, specifically California Government Code Sections 27000.1-27000.5,

27130-27137, and 53600-53686, authorize the Treasurer to invest funds in permissible types of investment or financial instruments. These include government obligation securities, bankers' acceptances, commercial paper, medium-term notes, pass-through securities, negotiable certificates of deposit, repurchase and reverse repurchase agreements, money market mutual funds, LAIF and collateralized certificates of deposit.

The Pool's primary objective is to safeguard the principal of the funds. The secondary objective is to meet the liquidity needs of the participants. The third objective is to achieve an investment return on the funds within the parameters of prudent risk management.

Investments in the pooled funds are stated at fair value. Securities which are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of investments is determined monthly and is provided by the custodian bank. All purchases of investments are accounted for on a settlement date basis. Unrealized gains or losses of securities are determined by taking the difference between amortized cost and the fair value of investments. Securities in the aggregate amount of \$110,025,000 were sold during the year with net gain of \$534,500. The Pool is authorized to have leverage exposure through the use of Reverse Repurchase Agreements (RRP) and Securities Lending. The maximum exposure is 20% of the total portfolio. However, there were no RRP or securities lending transactions during the fiscal year.

Investments are categorized below to give an indication of the level of risk at year-end.

- Category 1 – Includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name.
- Category 2 – Includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the County's name.
- Category 3 – Includes uninsured and unregistered investments for which the securities are held by the counter-party or by its trust department or agent, but not in the County's name.

The entire portfolio as of June 30, 2001 is under Category 1 except for Open-end Institutional Money Market funds, which do not fall under any of the above categories as the investment in these funds are not evidenced by specific securities.

**San Diego County Investment Pool  
Fair Value**

**06/30/2001**

Except for the Open-end Institutional Money Market funds, the entire portfolio is under Category 1:

	Rate Range %	Maturity Date Range	Par Value (000)	Amortized Cost (000)	Fair Value (000)
U.S. government obligations					
Federal Home Loan Bank	5.02 - 7.25	8/01 - 2/06	\$432,990	\$432,723	\$436,959
Federal Home Loan Mortgage Corp.	5.05 - 7.15	7/02 - 3/06	190,000	189,884	190,955
Federal Nat'l Mortgage Assn.	5.07 - 7.15	8/01 - 3/06	634,175	633,966	635,557
Federal Farm Credit Bank	5.20	9/01	15,000	14,975	15,016
Short-term notes					
Commercial Paper	4.11 - 5.74	7/01 - 11/01	732,210	727,878	729,194
Medium-Term Notes	5.45 - 8.38	7/01 - 11/01	87,772	87,811	88,101
Repurchase Agreements*	4.20	7/01	230,000	230,000	230,000
Negotiable Certificates of Deposit	6.16 - 6.98	7/01 - 12/01	145,000	145,002	145,940
Total categorized securities			2,467,147	2,462,239	2,471,722
Open-end Inst'l. Money Market funds**	4.06 - 4.15	7/01	266,000	266,000	266,000
<b>Total Investments</b>			<b>\$2,733,147</b>	<b>\$2,728,239</b>	<b>\$2,737,722</b>

\* Repurchase Agreements and Institutional Money Market funds are carried at portfolio book value (carrying cost).

\*\* Open-end Institutional Money Market funds are not categorized because they do not fall under any of the categories of credit risk as the investment in these funds is not evidenced by specific securities.

## Comparative Data

Certain reclassifications have been made to the prior year's financial data to conform to the current year's presentation.

## Interest Apportionment

Earnings on investments are distributed to Pool participants and are calculated using the accrual basis of accounting. Section 27013 of the California Government Code authorizes the Treasurer's Office and Auditor & Controller to deduct administrative fees related to investments. The net realized earnings on investments are apportioned to the Pool participants quarterly, based on their daily average balances. During the fiscal year ended June 30, 2001, the Pool distributed \$149.2 million of investment earnings compared to the previous year's distribution of \$110.3 million.

## Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

## Portfolio Pool Participant Composition

The County portion of the Investment Pool assets as of June 30, 2001 is \$1,350 million while the external portion that is not part of the County is \$1,459 million. As of June 30, 2001 and 2000, the pool participants by percentage of assets consist of:

	<u>2001</u>	<u>2000</u>
County Funds	37.5%	38.9%
Unapportioned Tax/Interest Funds/Other	15.3	13.3
Schools	39.9	41.5
Community Colleges	5.5	4.5
Voluntary Depositors	1.8	1.8
Total	100%	100%



## INVESTMENT SECTION

## **Administrative Overview**

The Pool was created when the State Legislature established the five-member County Board of Supervisors, approximately in 1853. For fiscal year 2000/2001 the Pooled Money Fund has accomplished many goals:

- The unrealized loss decreased from \$7.1 million at June 30, 2000 to an unrealized gain of \$9.5 million at June 30, 2001.
- The Pool has had an increase in weighted average days to maturity from 198 days at June 30, 2000 to 559 days at June 30, 2001.
- During the year the Pool structure has remained in compliance with the maturity policy which requires 52% of securities to mature under one year; as of June 30, 2001 the Pool has 56% maturing less than one year.
- The Pool's expense ratio remained very competitive at 0.15% of the average daily balance for the fiscal year 2000/2001 and 0.12% for the fiscal year 1999/2000.
- The Pool received a 'AAA/S1' rating by Standard & Poor's, a nationally recognized rating agency.
- The Pooled Money Fund is in its third year of being rated V1+ (short-term highest) and AAA (long-term highest) by Fitch IBCA.
- The yield to maturity of the Investment Pool has decreased from 6.42% on June 30, 2000 to 5.29% on June 30, 2001.

## **Outline of Investment Policy**

The Pooled Money Fund is managed in accordance with prudent money management principles and California State law Sections 27000.1 – 27000.5, 27130 – 27137, and 53600 – 53686.

The objectives of the Pooled Money Fund are as follows:

1. The primary objective shall be to safeguard the principal of the funds under the control of the Treasurer's Office.
2. The secondary objective shall be to meet the liquidity needs of participants.
3. The third objective shall be to achieve an investment return on the funds under control of the Treasurer within the parameters of prudent risk management.

The Treasurer's Oversight Committee (TOC) annually reviews and approves the Treasurer's Pooled Money Fund Investment Policy. Once the TOC has recommended approval, the Board of Supervisors reviews and adopts the Investment Policy in a public forum. The Policy focuses on risk management by setting limits on principal exposure by type of security, by issuer of debt, by

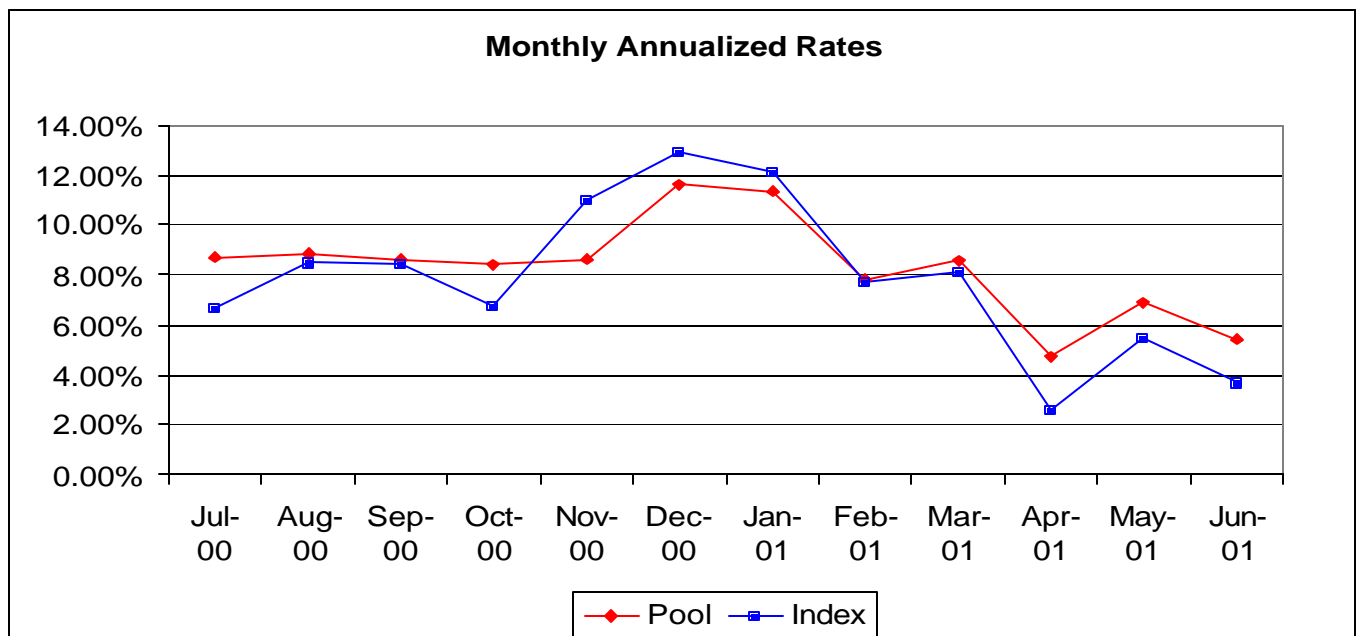
minimum credit ratings; limits on liquidity by placing return as the least important compared to safety and liquidity. The Policy includes a detailed section on terms and conditions for Voluntary Participants' deposits and withdrawal of funds from the Pool. All investment transactions are handled by the internal Investment Officers. There are no outside investment advisors.

## Investment Results

During the year, the Treasurer's Office Pooled Money Fund totaling \$2.8 billion in assets, exceeded our earnings expectations of 6.00% by .37%; which equates to 6.37%; approximately \$10.4 million in additional earnings. The fund outperformed the custom index in 8 out of 12 months during the year. The average monthly annualized market value return for the fund during the fiscal year 2000/2001 was at 8.31% while the average monthly annualized market value return for the index was 7.84%. The custom index is made up of the following components:

<u>Investment Type</u>	<u>Maturity Range</u>	<u>Allocation</u>
• Treasuries	1 – 3 year	24%
• Treasuries	3 – 5 year	24%
• T-Bills	0 – 3 mos	12.50%
• T-Bills	3 – 6 mos	9%
• T-Bills	6 – 9 mos	9%
• T-Bills	12 mos	9%
• US Libor	1 mo	6.25%
• US Libor	3 mos	6.25%

A chart of the Pooled Money Fund vs. custom index is shown below.



## Performance Returns

As of June 30, 2001

INVESTMENT TYPE	Reported in Percentages		
	1Year	3 Years	5 Years
<b>TOTAL PLAN</b>	<b>6.37</b>	<b>5.45</b>	<b>4.81</b>
<b>CUSTOM INDEX</b>	<b>8.15</b>	<b>6.18</b>	<b>6.38</b>
FFCB	5.20	5.47	5.26
FHLB	6.40	5.24	4.57
FNMA	5.81	5.51	5.23
FHLMC	5.87	5.66	5.66
MEDIUM TERM NOTES	6.52	5.40	4.73
MEDIUM TERM NOTES ACT/360	6.59	5.99	5.99
REPURCHASE AGREEMENTS	5.68	5.58	5.64
NEGOTIABLE C/DS, FIXED	6.52	5.93	5.88
COMMERCIAL PAPER, DIS	6.05	5.84	5.80
COMMERCIAL PAPER, MONTHLY	4.34	5.25	5.44
MONEY MARKET FUNDS ACT/365	5.31	5.43	5.24
TD WITH CALC CODE OF CSC-00	6.46	5.89	5.86
TD WITH CALC CODE OF CSC-02	5.69	5.65	5.65
TD WITH CALC CODE OF CSC-05	6.23	5.71	5.69

The above calculations were prepared using time-weighted rates of return in accordance with AIMR's Performance Presentation Standards.

## Income Allocation

The interest earned by each participant is proportionate to the average daily balance of the local agency. Prior to distribution, expenses incurred by the County will be deducted from the earnings of the Pooled Money Fund. The Pool's expense ratio for 2000/2001 was 0.15% of the average daily balance. The apportionment rate is set approximately two weeks after each calendar quarter end. The earnings are usually credited in two increments, with the first distribution occurring during the second month after quarter-end. The second distribution will be made the following month, which is the last month of the new quarter. The incremental amounts that can be distributed are based on the balance in the Apportionment Fund. Generally sixty percent (60%) or more of the quarterly earnings will be distributed during the first apportionment and the balance will be distributed during the second apportionment. Apportionments are not paid out by warrants; all earnings are reinvested in the Pool.

## **Economic Environment**

No one ever wants to experience a down year in the stock market like 2000, but almost everyone felt it was inevitable. The year's environment included: Federal rate increases, a slowing economy, moderating corporate earnings, NASDAQ P/E compression, increased energy costs for business and consumers, and a hotly contested presidential election.

The Federal Reserve clearly played a significant role in the future forecast of interest rates, economic growth and ultimately market returns. Federal actions earlier in the year slowed growth in the fastest growth areas and investor demand dried up for many speculative companies. In turn, analysts lowered earnings and growth projections for many of the stalwart technology companies. Several Bell-weather companies have fallen in the year 2000 especially in the NASDAQ where the who's who of technology companies gave back a large part of the excess returns they had built up over the last several years. The technology sector lost 40% and communications gave up nearly as much at -39.7%.

Coming into the close of 2000, we found ourselves at the end of the Federal Reserve's tight monetary cycle. The economy had slowed and earnings growth rates had declined. Inflationary pressures subsided and the Federal Reserve took action in the first week of the year with a decisive 50 basis point rate cut, ending their restrictive hold on money flows and the economy.

The first quarter of the new-year was quite a surprise for most investors. While we did not expect a strong rebound from last year's soft market conditions, we certainly did not expect acceleration in the market decline. The economic weakness apparent in the November-December period did not follow through into the following year. Economic data released for the first two months of the year indicated renewed strength or stabilization from the apparent weakness in the year-end data.

Even though the Federal Reserve aggressively reversed its policy in January with two 50 basis point rate cuts and a third rate cut of the same degree in March, the resilient economic data and a resurgence in inflationary indicators shifted market expectations away from a rapid Federal-induced economic recovery to a prolonged period of more moderate growth. Corporate management did not provide much support with continual lower earnings guidance related to slower demand and over stocking of inventory levels.

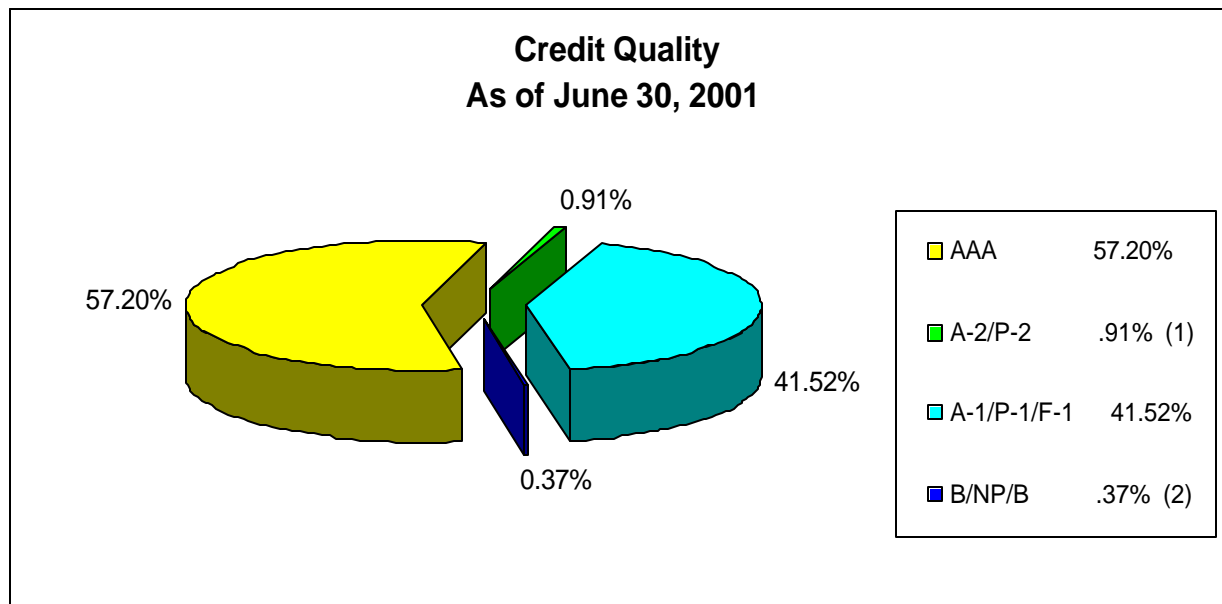
The second quarter of 2001 was one of the worst economic quarters on record in the past ten years. This sounds quite dire but it actually portends strong implications for forward growth in the economy, corporate earnings, and the stock market averages over the next twelve to eighteen months. U.S. Gross Domestic Product (GDP) is expected to have experienced minimal positive growth during the second quarter after rising 1.2% in the first quarter. Industrial Production plunged over the past several months, truly indicative of a recession in the U.S. manufacturing sector. And, more importantly, corporate earnings are expected to be reported 14% to 17% below year ago levels. This would represent the worst earnings report since the 1991 recession.

Optimism lies in the aggressive actions taken by the Federal Reserve beginning in January. It has completed six rate cuts over the past six months totaling 275 basis points. This represents the most aggressive monetary easing cycle since 1982. It is very difficult to ignore the historical precedent set, which clearly indicates economic recovery and an equity market rebound six to nine months following the first of a series of Federal Reserve rate cuts.

## Risk Profile

The three main risk factors for the Pooled Money Fund are credit, liquidity, and interest rate exposure.

The credit limits of the investments held by the Pool meet and in many cases exceed the requirements of the California Government Code. For example, the Pool is limited to buying corporate and medium-term notes of issuers rated AAA or better when the maturity is beyond one year, whereas the Code allows for buying corporate and medium-term notes of issuers rated A or better. The following pie chart displays the percentage breakdown of credit exposure for the Pool.

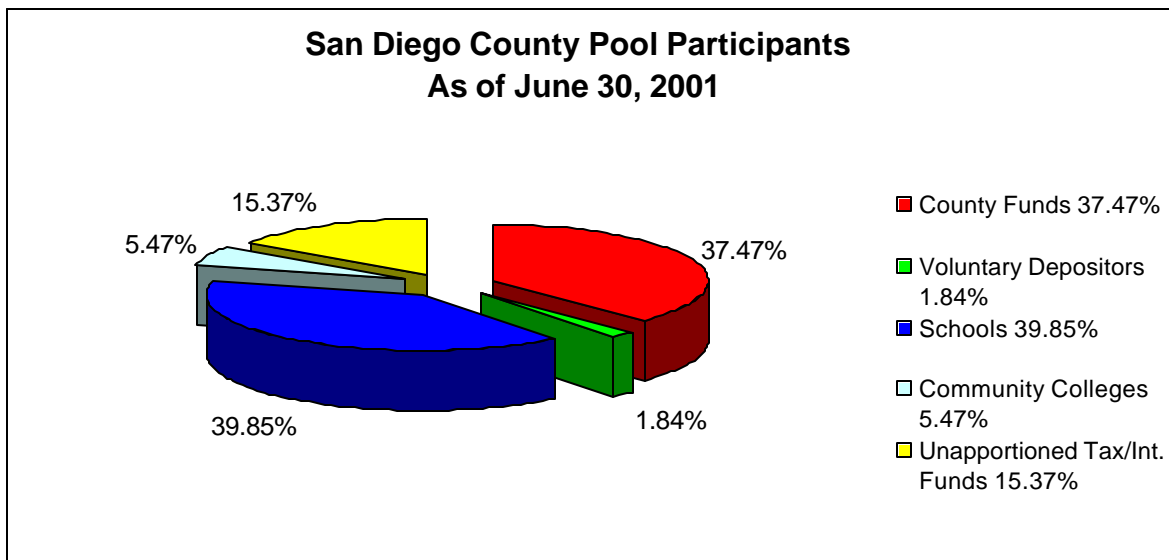


(1) \$25,000,000 position of Daimler Chrysler maturing on 11/8/01, was rated A1/A+ at time of purchase.

(2) \$10,000,000 position of Lucent Corp. maturing on 7/15/01 was rated A2/A/A at time of purchase.

# San Diego County Investment Pool Participants - June 30, 2001

County	37.47%	Retirement	
Unapportioned Tax/Interest Funds/Other	15.37%	Cities	
Schools (K thru 12)		Encinitas	
Alpine Union		La Mesa	
Bonsall Union		Solana Beach	
Borrego Springs Unified		Independent Agencies	
Cajon Valley Union		Alpine Fire Protection	
Cardiff		Bonita Sunnyside Fire Protection	
Carlsbad Unified		Borrego Springs Fire Protection	
Chula Vista Elementary		Buena Sanitation	
Coronado Unified		Deer Springs Fire Protection	
Dehesa		East County Fire Protection	
Del Mar Union		Fallbrook Public Utility	
Encinitas Union		Fallbrook Sanitation	
Escondido Union		Fire Agency Self Insurance System (PASIS)	
Escondido Union High		Julian-Cuyamaca Fire Protection	
Fallbrook Union Elementary		Lake Cuyamaca Recreation & Park	
Fallbrook Union High		Lakeside Fire	
Grossmont Union High		Lower Sweetwater Fire Protection	
Jamul-Dulzura Union		Majestic Pines Community Services District	
Julian Union		Metropolitan Transit District Board	
Julian Union High		Metropolitan Transit Service	
La Mesa- Spring Valley		Mission Resource Conservation	
Lakeside Union		North County Cemetery District	
Lemon Grove		North County Cemetery Perpetual	
Mountain Empire Unified		North County Cemetery	
National		North County Dispatch	
Oceanside Unified		North County Fire Protection	
Pauma		Palomar Resource Conservation	
Poway Unified		Pine Valley Fire Protection	
Ramona Unified		Pomerado Cemetery Perpetual	
Rancho Santa Fe		Pomerado Cemetery District	
San Diego Unified		Ramona Cemetery District	
San Dieguito Union High		Ramona Cemetery Perpetual	
San Marcos Unified		Rancho Santa Fe Fire Protection	
San Pasqual Union		SANDAG	
San Ysidro		San Diego Rural Fire Protection	
Santee		San Dieguito River	
Solana Beach		San Marcos Fire Protection	
South Bay Union		San Miguel Fire Protection	
Spencer Valley		San Ysidro Sanitation	
Sweetwater Union High		South County OPS Center	
Vallecitos		Spring Valley/Casa de Oro	
Valley Center Union		Upper San Luis Rey Resource Conservation	
Vista Unified		Valley Center Fire Protection	
Warner Unified		Valley Center Cemetery	
Education - Cemetery Districts		Valley Center Cemetery Perpetual	
Department of Education		Vista Fire Protection	
Education - Debt Service		Total for Ret., Cities, Independent Agencies	1.84%
Education - Building Funds			
Total for Schools	39.85%		
Community Colleges			
San Diego			
Grossmont/Cuyamaca			
MiraCosta			
Palomar			
Southwestern			
Total for Community Colleges	5.47%		
		TOTAL	100.00%



The cash flow projections extend two years into the future, which allows for more precise positioning of the Portfolio maturity structure.

### Leverage Exposure

The Pooled Money Fund is allowed to have leverage exposure through the use of Reverse Repurchase Agreements (RRP) and Securities Lending. The maximum exposure is 20% of the Portfolio value. There were no RRP's or Securities Lending transactions during fiscal year 2001.

The San Diego County Portfolio Statistics table gives a detailed listing of the Portfolio diversification, yields by type of securities, and weighted average maturities as of June 30, 2001.

Treasurer-Tax Collector  
San Diego County Portfolio Statistics  
As of June 30, 2001

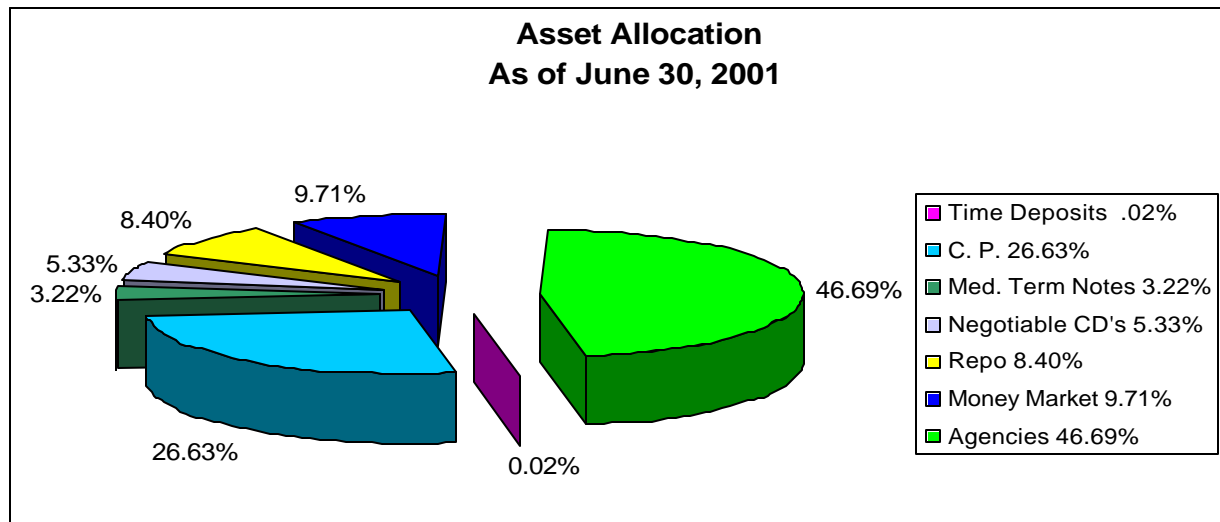
	Percent Of Portfolio	Book Value	Market Price	Accrued Interest	Market Value	Unrealized Gain/(Loss)	Yield To Maturity	Weighted Average Days To Maturity
Federal Farm Credit Bank Notes	0.55%	\$14,975,284	100.11%	\$240,500	\$15,016,350	\$41,066	6.08%	72
Federal Home Loan Bank Notes	15.96%	432,722,703	100.92%	4,302,670	436,958,988	\$4,236,285	6.02%	952
Federal Nat'l Mortgage Assoc. Notes	23.21%	633,965,613	100.22%	9,422,882	635,557,019	\$1,591,405	5.69%	1,251
Federal Home Loan Mortg. Corp. Note	6.97%	189,883,901	100.50%	2,828,001	190,955,150	\$1,071,249	6.02%	1,362
Corporate Medium Term Notes	3.22%	87,810,985	100.37%	1,316,258	88,100,908	\$289,923	6.33%	97
Money Market Funds	9.71%	266,000,000	100.00%	583,222	266,000,000	\$0	4.12%	1
Repurchase Agreements	8.40%	230,000,000	100.00%	53,603	230,000,000	\$0	4.20%	1
Negotiable Certificates Of Deposit	5.33%	145,002,641	100.65%	5,683,892	145,939,650	\$937,009	6.33%	112
Commercial Paper	26.63%	727,878,087	99.59%	0	729,194,253	\$1,316,166	4.75%	49
Collateralized Certificates of Deposit*	0.02%	490,000	100.00%	6,400	490,000	\$0	5.93%	122
Totals For June 2001	100.00%	\$2,728,729,214	100.17%	\$24,437,428	\$2,738,212,318	\$9,483,103	5.29%	559

\*Collateralized CDs classified as Cash deposits in Statement of Net Assets



The apportionment rate during fiscal year 2000/2001 was 6.50%. The preceding 3 years annualized was 5.62% and the preceding 5 years annualized was 4.93%.

### Chart of Actual Asset Allocation As of June 30, 2001



### Schedule of Top Ten Fixed-Income Securities As of June 30, 2001

TOP TEN FIXED-INCOME SECURITIES			
Security Name	Cusip No.	Par	Fair Value
Tri-Party Repurchase Agreement	N/A	\$230,000,000	\$230,000,000
Federal Home Loan Bank	3133MF4E5	100,000,000	100,125,000
Federal National Mortgage Association	31359MHN6	100,000,000	99,953,000
Westdeutsche NCD	99753G7E9	50,000,000	50,185,000
Federal National Mortgage Association	3136FOCJ9	50,000,000	50,140,500
Moat Funding CP	60687LXA0	50,000,000	49,986,000
Montauk Funding CP	61217LU51	50,000,000	49,984,000
Sigma Finance CP	82656TUA7	50,000,000	49,957,000
Greyhawk Funding CP	39789LUA4	50,000,000	49,957,000
Kimberly Clark CP	49437CUD3	50,000,000	49,941,000



## **STATISTICAL SECTION**

**SAN DIEGO COUNTY INVESTMENT POOL**  
**SCHEDULE OF EARNINGS, RETURNS, FEES, APPOINT. RATE**  
**AVERAGE DAILY BALANCES AND RATIO OF FEES/ADB**

Year	Earnings	Total Returns	Amount Recovered	Net Earnings	Fees	Net Distributed	Apport. Rate	Ave. Daily Balances (In Millions)	Ratio of Fees/ADB
00/01	\$ 152,971,324	6.37%		\$ 152,971,324	\$ 3,743,964	\$ 149,227,360	6.50%	\$ 2,455.3	0.15%
99/00	112,764,518	5.68%		112,764,518	2,454,710	110,309,808	5.80%	2,002.9	0.12%
98/99	73,660,290	4.25%	\$ 462,010	73,198,280	2,238,038	70,960,242	4.27%	1,765.6	0.13%
97/98	69,467,385	3.88%	850,000	68,617,385	2,925,421	65,691,964	3.82%	1,821.4	0.16%
96/97	72,903,124	3.86%	1,200,000	71,703,124	2,857,237	68,845,887	3.77%	1,911.8	0.15%
95/96	85,337,127	4.10%			2,309,845	83,027,282	3.99%	2,074.5	0.11%
94/95	150,945,338	4.76%			1,876,892	149,068,446	4.73%	3,236.6	0.06%
93/94	219,305,767	5.93%			2,130,708	217,175,059	6.09%	3,783.1	0.06%
92/93	223,563,651	7.48%			1,771,258	221,792,393	7.58%	3,109.4	0.06%
91/92	212,666,105	8.62%			1,807,322	210,858,783	8.80%	2,544.3	0.07%
90/91	165,582,726	8.81%			1,708,963	163,873,763	9.37%	1,948.6	0.09%
89/90	150,798,225	9.11%			1,564,119	149,234,106	9.89%	1,732.1	0.09%

**Note:** \$2,512,010 were withheld from actual apportionments during the fiscal years 96/97, 97/98 and 98/99 as a result of excess apportionment that occurred in prior years. All excess amounts distributed have been fully recovered.

**SAN DIEGO COUNTY INVESTMENT POOL**  
**Schedule of Professional Fees**  
**(Administrative Costs)**

FOR THE FISCAL YEARS ENDED:	06/30/01	06/30/00	06/30/99	6/30/98	6/30/97
<b>PROFESSIONAL FEES:</b>					
BANK OF AMERICA-BANKING FEES	\$ 368,699	\$ 377,776	\$ 520,655	\$ 570,109	\$ 409,434
SWISS BANK - CUSTODIAL FEES				196,700	336,600
STATE STREET BANK-CUSTODIAL FEES	64,030	41,186	40,090		
<b>COMPUTER-RELATED EXPENSES:</b>					
SUNGARD FINANCIAL SYSTEMS	34,296	30,586	35,295	27,655	28,969
TELERATE	-	-	4,230	26,357	28,137
BLOOMBERG	49,093	41,280	40,539	29,578	27,861
MONEY MARKET SERVICES		-	6,120	5,460	5,850
WASSAU FINANCIAL SYSTEM	115,525				
UNISYS				83,500	
GRANADA COMPUTER SERVICES					60,000
SOFTWARE SERVICES	40,500	25,500	25,500	28,040	25,300
<b>TOTAL PROFESSIONAL FEES</b>	<b>672,143</b>	<b>516,328</b>	<b>672,429</b>	<b>967,399</b>	<b>922,151</b>
<b>OTHER COSTS:</b>					
FIXED ASSET - 7.5 MPE/IMAGING EQUIPT	752,365		-	370,000	350,000
SALARIES & BENEFITS	1,223,884	1,057,848	858,363	835,162	806,410
SERVICES & SUPPLIES	364,837	287,039	232,957	145,177	218,856
DEPARTMENT OVERHEAD	274,007	262,663	272,757	239,541	223,379
EXTERNAL OVERHEAD	276,728	205,832	105,536	315,870	251,309
<b>SUB-TOTAL</b>	<b>2,891,821</b>	<b>1,813,382</b>	<b>1,469,613</b>	<b>1,905,750</b>	<b>1,849,954</b>
AUDITORS' COST	180,000	125,000	95,996	52,272	85,132
<b>TOTAL COSTS</b>	<b>\$3,743,964</b>	<b>\$2,454,710</b>	<b>\$ 2,238,038</b>	<b>\$ 2,925,421</b>	<b>\$2,857,237</b>

SAN DIEGO COUNTY INVESTMENT POOL ASSET ALLOCATION MARKET VALUE (Dollar amount in thousands)										
INVESTMENT TYPE	6/30/01		06/30/00		06/30/99		06/30/98		06/30/97	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Treasury Notes	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$104,848	6.4%	\$103,598	6.3%
Government Agencies	1,278,488	46.7%	793,040	35.1%	625,905	33.9%	590,938	36.0%	715,006	43.4%
Corporate Med.Term Notes	88,101	3.2%	117,900	5.2%	174,277	9.4%	100,137	6.1%	102,126	6.2%
Commercial Paper	729,194	26.6%	629,437	27.8%	263,913	14.3%	215,947	13.2%		0.0%
Repurchase Agreements	230,000	8.4%	330,000	14.6%	172,000	9.3%	165,000	10.1%	229,000	13.9%
Negotiable Cert. of Deposit	145,939	5.3%	364,026	16.1%	592,991	32.1%	441,877	26.9%	471,334	28.6%
Open-end Money Market Funds	266,000	9.8%	26,300	1.2%	17,500	1.0%	21,500	1.3%	25,300	1.6%
TOTAL	\$2,737,722	100.0%	\$2,260,703	100.0%	\$1,846,586	100.0%	\$1,640,247	100.0%	\$1,646,364	100.0%

SAN DIEGO COUNTY INVESTMENT POOL PARTICIPANTS										
PARTICIPANTS	06/30/01		06/30/00		06/30/99		06/30/98		06/30/97	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
County	\$1,026,646	37.5%	\$877,153	38.8%	\$834,657	45.2%	\$649,538	39.6%	\$656,899	39.9%
Undistributed Taxes/Int./Other	418,871	15.3%	302,934	13.4%	83,096	4.5%	108,256	6.6%	88,904	5.4%
Schools	1,092,351	39.9%	938,192	41.5%	786,646	42.6%	744,672	45.4%	673,363	40.9%
Community Colleges	150,575	5.5%	101,732	4.5%	120,028	6.5%	113,177	6.9%	85,611	5.2%
Voluntary Deposits	49,279	1.8%	40,692	1.8%	22,159	1.2%	24,604	1.5%	141,587	8.6%
TOTAL	\$2,737,722	100.0%	\$2,260,703	100.0%	\$1,846,586	100.0%	\$1,640,247	100.0%	\$1,646,364	100.0%